

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 FEA-01 AEC-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-01 INR-07

INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03 RSC-01 SAM-01

OES-03 SP-02 SS-15 STR-01 TRSE-00 FRB-03 PA-01

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DEPT PASS TREASURY

E. O. 11652: N/A

TAGS: ENRG

SUBJECT: BURMAH OIL RESCUE OPERATION: BANK OF ENGLAND

BUYS BP SHARES

REF: LONDON 102

1. ON JANUARY 24 BANK OF ENGLAND (BOE) BOUGHT FOR
179 MILLION POUNDS BURMAH'S UNPLEDGED 20.3 PERCENT SHARE
HOLDINGS IN BRITISH PETROLEUM WHICH HAD BEEN HELD BY BOE
AS COLLATERAL SINCE DECEMBER 31 (IN EXCHANGE FOR BOE
GUARANTEE OF BURMAH'S FOREIGN CURRENCY BORROWING OF \$650
MILLION AMONG OTHER CONDITIONS). BOE INFORMED GOVERNMENT
TAKEOVER PANEL THAT HMG DID NOT INTEND TRANSACTION IN-
CREASING ITS HOLDINGS OF BP TO 68.5 PERCENT (HMG HAS
LONG SINCE OWNED 48.2 PERCENT OF BP) SHOULD IN ANY WAY
CHANGE EXISTING ARRANGEMENTS BETWEEN GOVERNMENT AND BP.
ACCORDINGLY, WHILE STOCK REMAINS IN BOE'S HANDS, HMG WILL
NOT EXERCISE A GREATER PROPORTIONATE VOTING POWER IN RE-
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LATION TO OTHER SHAREHOLDERS THAN IT COULD HAVE PREVIOUSLY

TAKEOVER PANEL HAS RULED IN VIEW OF THIS UNDERTAKING THAT NO BID NEED BE MADE TO MINORITY PUBLIC SHAREHOLDERS IN BP.

2. APPARENT IMPETUS FOR BOE PURCHASE OF BP SHARES WAS NEED TO RESTORE CONFIDENCE IN BURMAH, TO PERMIT IT TO PROCEED WITH EXPENDITURES ON NORTH SEA DEVELOPMENT OF THISTLE AND NINIAN FIELDS AND TO MEET COMPANY'S IMMEDIATE SHORT-TERM NEEDS.

3. PARLIAMENTARY AND FINANCIAL CIRCLES WERE DISQUIETED BY HANDLING OF BURMAH SITUATION. PATRICK JENKIN, CONSERVATIVE PARTY SPOKESMAN ON ENERGY, ANTICIPATED TROUBLE REGARDING BP'S INTERESTS IN SOHIO AND ALASKA AS A CONSEQUENCE OF BOE AND HMG TREASURY OWNING NEARLY 70 PERCENT OF BP STOCK, REGARDLESS WHAT GOVERNMENT MAY SAY ABOUT BOE UNDERTAKING. JENKIN STATED "THERE HAVE ALREADY BEEN MUTTERINGS IN THE STATE OF OHIO AND IN THE US SENATE ABOUT THE DEGREE OF FOREIGN OWNERSHIP OF ENERGY ASSETS AND CONCERN IS BOUND TO BE GREATER IF CONTROL IS BY A FOREIGN GOVERNMENT." ON FINANCIAL SIDE, A COMMITTEE HAS BEEN FORMED BY INSTITUTIONAL SHAREHOLDERS WHO HOLD OUTSTANDING 31 PERCENT OF BURMAH STOCK TO LOOK AFTER THEIR INTERESTS. THERE WERE SOME SUGGESTIONS COMMITTEE BELIEVED THAT SALE OF BP STOCK TO BOE SHOULD HAVE BEEN SUBJECT OF CONSULTATION WITH MINORITY SHAREHOLDERS, THAT BP SHARES COULD HAVE BEEN OFFERED TO INSTITUTIONS AND THAT PRICE PAID WAS TOO LOW. CLEARLY, INSTITUTIONS ARE ANXIOUS TO GET CLARIFICATIONS AND ARE FAR FROM CONTENT WITH ATTEMPTS OF BOE AND HMG TO DEMONSTRATE THAT MATTER HAS BEEN HANDLED AS MUCH AS POSSIBLE ON ARM'S LENGTH BASIS.

4. IT IS ALSO REPORTED THAT BP HAS BEEN DISSATISFIED WITH HMG'S HANDLING OF BURMAH CRISIS SO FAR AS THERE MAY BE REPERCUSSIONS FOR IT. BP PURPORTEDLY WAS NOT CONSULTED AT ANY STAGE AND IT IS HIGHLY SENSITIVE ABOUT ITS MAINTENANCE OF ARM'S LENGTH RELATIONSHIP WITH HMG, IN VIEW OF OVERSEAS COMMITMENTS, ESPECIALLY IN US.

5. COMMENT: GOVERNMENT HAS OWNED MORE THAN 48 PERCENT OF BP SINCE BEFORE FIRST WORLD WAR BUT HAS NEVER LIMITED OFFICIAL USE

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ATTEMPTED TO EXERCISE SUBSTANTIAL CONTINUING CONTROL OVER COMPANY POLICY. RELATIONSHIP BETWEEN BP AND HMG IS BASED FORMALLY ON TWO WHITEHALL LETTERS (PRE-WORLD WARI BRADBURY LETTER FROM TREASURY AND BRIDGES LETTER IN EARLY 1950'S DEALING WITH EXPROPRIATION OF ABADAN REFINERY). TWO GOVERNMENT-APPOINTED DIRECTORS ON BP BOARD LIMIT THEMSELVES PRIMARILY TO ADMINISTRATIVE AND BUDGETARY MATTERS. REGULAR CONSULTATIONS BETWEEN BP EXECUTIVES AND OFFICIALS

OF RESPONSIBLE GOVERNMENT DEPARTMENTS IS, AS A PRACTICAL
MATTER, A TWO WAY STREET. HMG INFLUENCE CAN BE STRONG,
INDEED CONTROLLING, WHEN IMPORTANT FOREIGN POLICY ISSUE
IS AT STAKE. ON OTHER HAND BP HAS ALMOST TOTALLY FREE
HAND ON COMMERCIAL POLICY MATTERS.

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Disposition Comment: 25 YEAR REVIEW
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